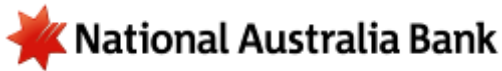


Economic report



Post-farmgate agribusiness survey

Vyanne Lai, NAB Agribusiness Economist

June quarter 2013

Post-farmgate business conditions rebounded

- **Post-farmgate agribusiness conditions rebounded in the June quarter to be mildly positive but confidence fell marginally.**
- **Customer demand remains the single most significant constraint to businesses' future profitability.**
- **Expectations for capex plans surged to the highest in two years as businesses seek to take advantage of the current low interest rates.**

Business conditions rebounded on a devaluing exchange rate and lower interest rates

In the June quarter, a number of significant weather and economic developments have influenced business conditions and confidence of post-farmgate businesses. First of all, the long-awaited autumn break arrived in late May, with decent rains across most parts of the country replenishing the much needed subsoil moisture critical for the growth phase of the newly planted winter crops. Secondly, the Reserve Bank of Australia cut the cash rate by 25bps to 2.75% somewhat unexpectedly in May, which served as a catalyst that sparked a period of sustained falls in the exchange rate, to be 12% lower over the three months to the end of Q2. Perhaps then not surprisingly, more survey respondents reported good conditions than poor in the quarter. Driving the rebound in the business conditions index had been broad-based increases across the three key components that make up the index: employment, trading and profitability.

Protein exports continued to grow at robust pace in the quarter, with beef exports reaching a monthly record high in May. However, the movements in the agribusiness result are in contrast to that of industry overall, which suggests that conditions during the June quarter have deteriorated. Post-farmgate agribusiness confidence remained in negative territory following a minor deterioration of 2 points to -11, largely reflecting the still-weak expectations on export sales, sales margins and profits.

Stronger conditions but demand still weak

On the positive side, the news of a falling AUD and a rate cut in the quarter against a backdrop of a loosening labour market has provided some impetus to the post-farmgate agribusiness sector. These developments nevertheless suggest a weakening domestic economy needing injections of stimulus from the

central bank. As a reflection of that, demand indicators continued to perform poorly in the quarter, with 55% of survey respondents citing sales and orders as a constraint on output while around half of the respondents cited demand as being the most constraining factor likely to impact on profitability over the next twelve months. That said, a higher proportion of respondents reported more forward orders and export sales which culminated in better trading conditions in the June quarter, but this came at the expense of sales margins. A higher share of respondents also reported that they had more employees and better cash flows.

Medium-term expectations are still resilient

Post-farmgate agribusiness's expectations for business conditions for the next 12 months have been reasonably positive for some time. Similarly, expectations on profitability were also quite solid, with 42% of respondents expecting an improvement in the next twelve months, marginally above the 39% for the broader economy. The lack of demand continues to be the most cited constraint on future profitability. Consistent with the current low-interest environment and softening labour market, respondents view interest rates, wage costs and the availability of suitable labour as relatively minor constraints on future profitability. The overall optimistic outlook has translated into the strongest capex expectations for the next 12 months since June quarter 2011.

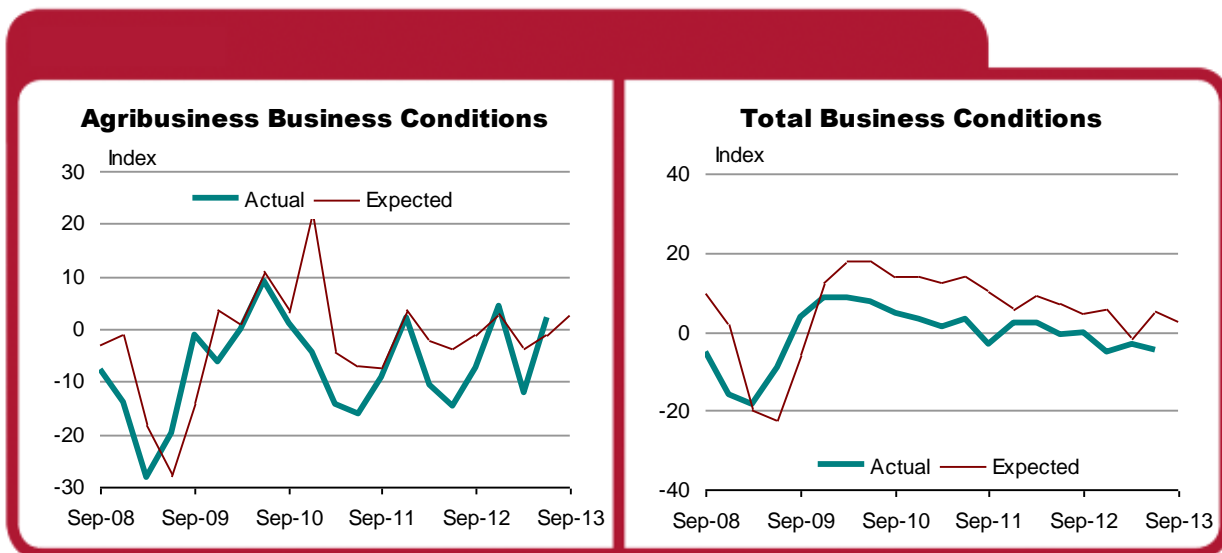
Key Survey Indicators

Index	Q4 2012	Q1 2013	Q2 2013
Business Conditions	4	-12	2
Business Confidence	-7	-9	-11
Trading	10	-13	5
Profitability	-3	-18	-3
Employment	6	-5	5
Expected Conditions - 3 months	-4	-1	3
Expected Conditions - 12 months	13	13	13
Forward Orders	5	-5	-3
Capacity Utilisation (%)	78.5	79.4	78.9
Capex Plans (Next 12 months)	6	20	31

Source: NAB Group Economics

Post-farmgate agribusiness conditions exceeded expectations

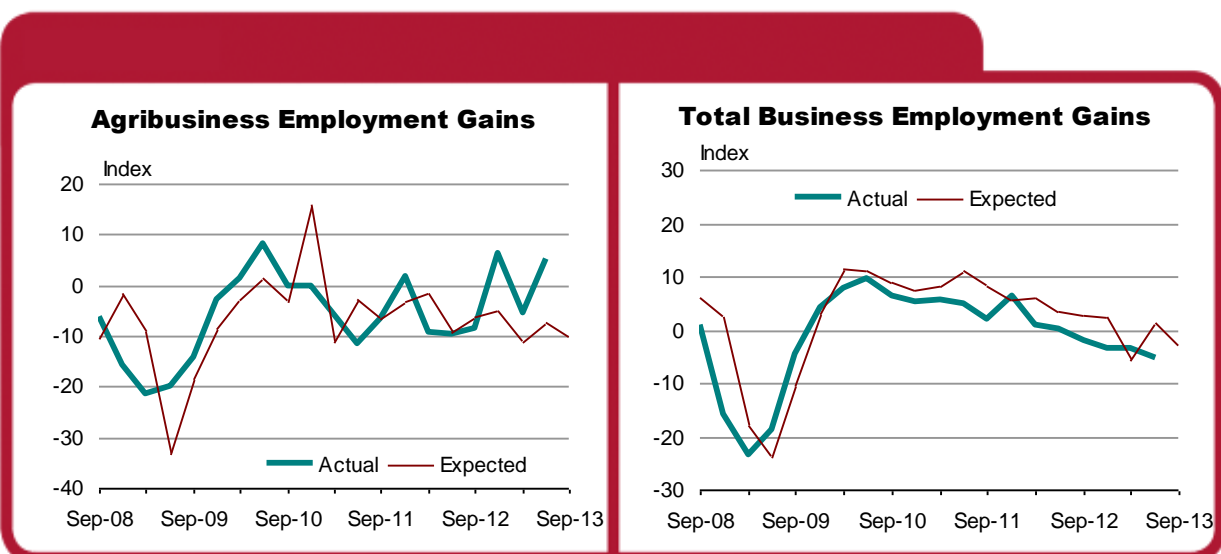
After a weak March quarter, the post-farmgate agribusiness conditions index has rebounded to be back in positive territory. While this series continues to exhibit volatile quarter-to-quarter movements, it can be observed that the index has been on a gentle upward underlying trajectory since the recent low in June 2011. According to the survey, 25% of the respondents have cited good or very good conditions, compared to just 17% in the March quarter, and a smaller share citing poor or very poor conditions. The strengthening of the index reflects broad-based improvements in profitability, employment and trading conditions. Trading and profitability conditions have risen remarkably by 18 points and 15 points respectively, with the former now in positive territory while profitability conditions are marginally negative still. Employment conditions have leaped by a somewhat impressive 10 points into positive territory. Strong export demand from emerging economies, accompanied by the 25bps cut in interest rate and the significant falls in AUD have undeniably provided some relief to post-farmgate businesses, especially those which are export-reliant.



Source: NAB Group Economics

Post-farmgate employment increased in line with better trading conditions

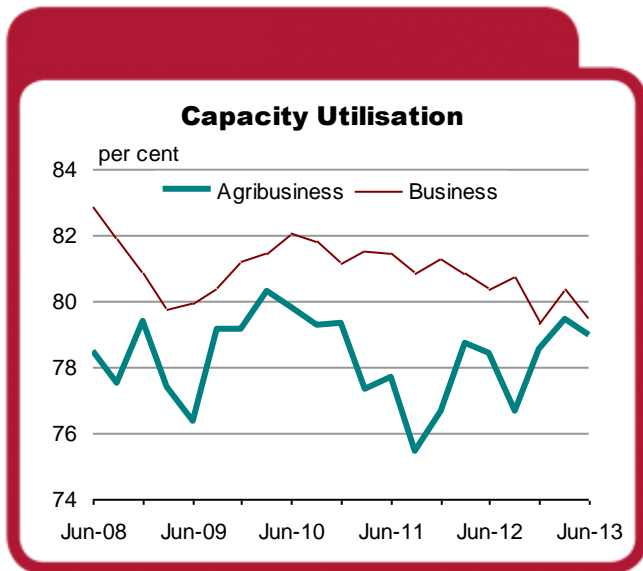
Post-farmgate agribusiness employment conditions have defied expectations to be effectively positive in the June quarter. The survey results showed that on balance, there are more respondents reporting an increase in hiring in the quarter compared to those which reduced their staff numbers. Against the current backdrop of slower employment and wage growth, there should be less competition for labour faced by post-farmgate businesses, especially if more casual workers are needed to meet seasonal spikes in demand. This is also consistent with this quarter's result of better trading conditions (more forward orders and export sales) which could have spurred some businesses to increase the hire of temporary workers. In contrast, businesses as a whole continued to experience a gradual decline in employment conditions, as weak domestic activity levels in many sectors are forcing employers to reduce head counts. The three-month employment outlook for both agribusiness and total business remains cautious, with 65% and 68% of employers respectively intending to keep their headcounts unchanged.



Source: NAB Group Economics

Capacity utilisation tracked lower as inventory building slowed

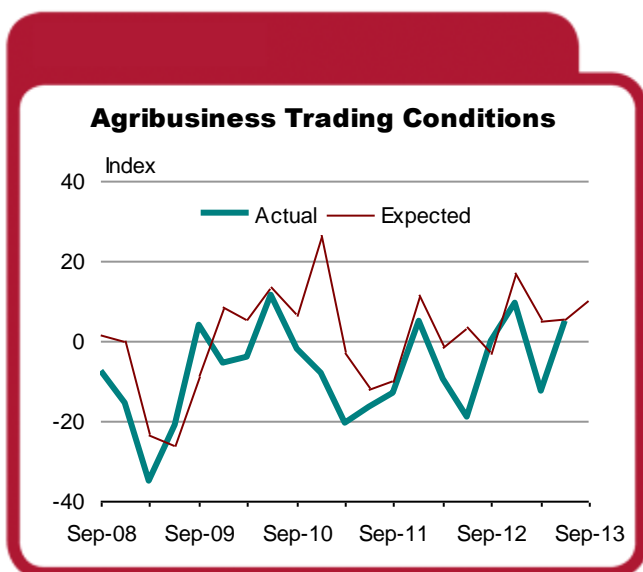
Capacity utilisation of post-farmgate businesses moved marginally lower in the June quarter to 78.9 %, but remains above its five-year average of 78.3%. This suggests that the inventory building phase undertaken by post-farmgate businesses in the last quarter has slowed, as stock levels in the quarter increased. The capacity utilisation within post-farmgate businesses is rising at a time when capacity utilisation of total businesses is faltering gradually as a result of weaker domestic activity. The relatively resilient readings of agribusiness capacity utilisation suggest that this sector is perhaps better shielded from the cyclical factors affecting other parts of the economy at present, with the sustained strength in agricultural exports providing some offsetting support. The increasing trend in capacity utilisation also favours capacity expansion in the medium-term, as indicated by this quarter's strong result for capex expectations for the next 12 months.



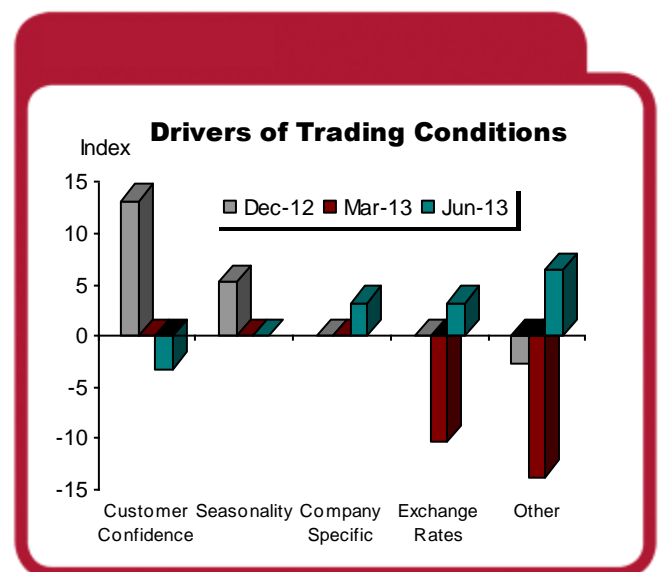
Source: NAB Group Economics

Trading conditions picked up on strong export performance which resulted in better cash flows

Trading conditions within post-farmgate businesses improved markedly in the quarter to be back in positive territory at +5, broadly in line with expectations made a quarter ahead. Domestic sales and export volumes of livestock and dairy were strong in the quarter, but they were largely driven by reduced prices of these products, resulting in poorer margins. Nonetheless, larger trading volumes have boosted cash flows of businesses, with 86% of respondents indicating that cash flows are satisfactory, good or very good, relative to only 71% in the March quarter. The steady slide in the AUD in late May to early July has also provided further impetus to trading conditions through enhanced export sales, while customer confidence was a detractor to overall trading conditions overall in the quarter.

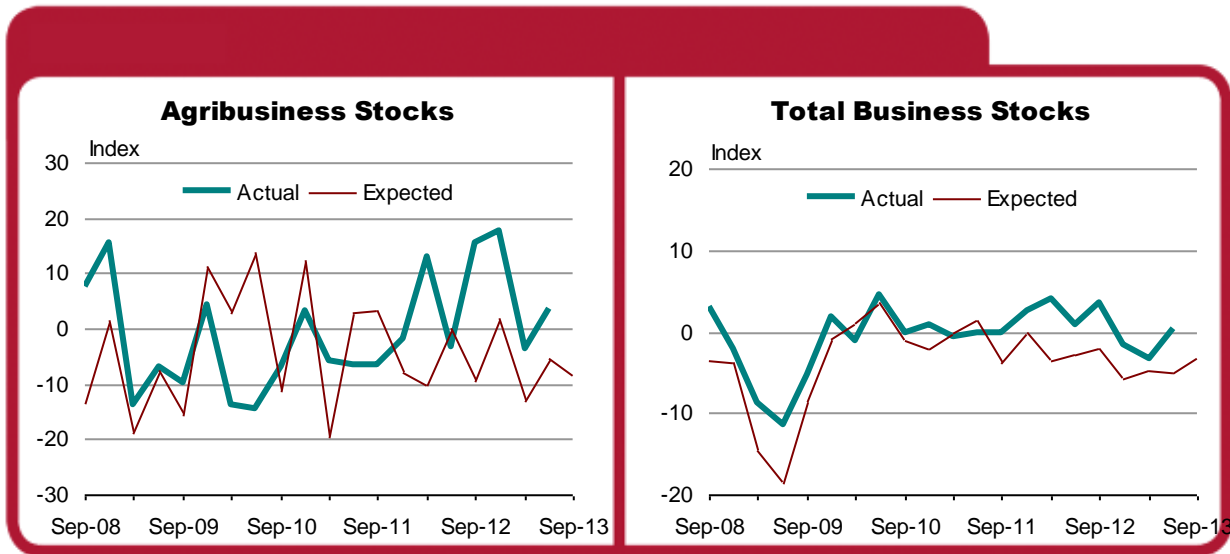


Source: NAB Group Economics



Stocks higher after a period of inventory building

The stock levels index rose marginally in the June quarter to +3 on higher forward orders, export sales and some degree of restocking activity carried out in the previous quarter. According to the survey results, 27% of respondents reported an increase in stock levels during the quarter relative to 22% reporting a reduction. This corresponded to a higher capacity utilisation rate during the March quarter. When asked about future stock levels, respondents expect overall lower levels in the September quarter with destocking carried out by a higher share of businesses.



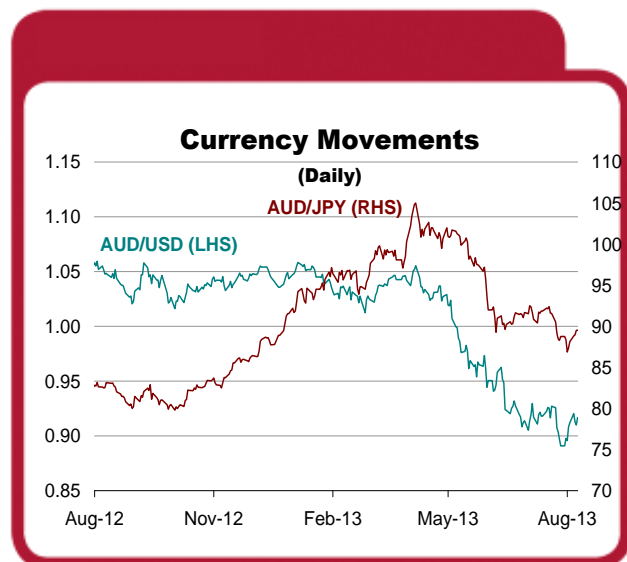
Source: NAB Group Economics

Export sales improved marginally in the June quarter

During the June quarter, the export sales index rose marginally to the neutral point of 0 after three successive quarters of negative readings. Exports of proteins, dairy, animal feed and horticulture products gained further traction from a significantly weakened AUD, which fell about 12% over the quarter. According to the survey results, an equal percentage of 22% of survey respondents reported either an increase or reduction in export sales. When asked about the quarter ahead, expectations by survey respondents were at their most optimistic since December 2011 at +21, possibly reassured by a more favourable exchange rate outlook.

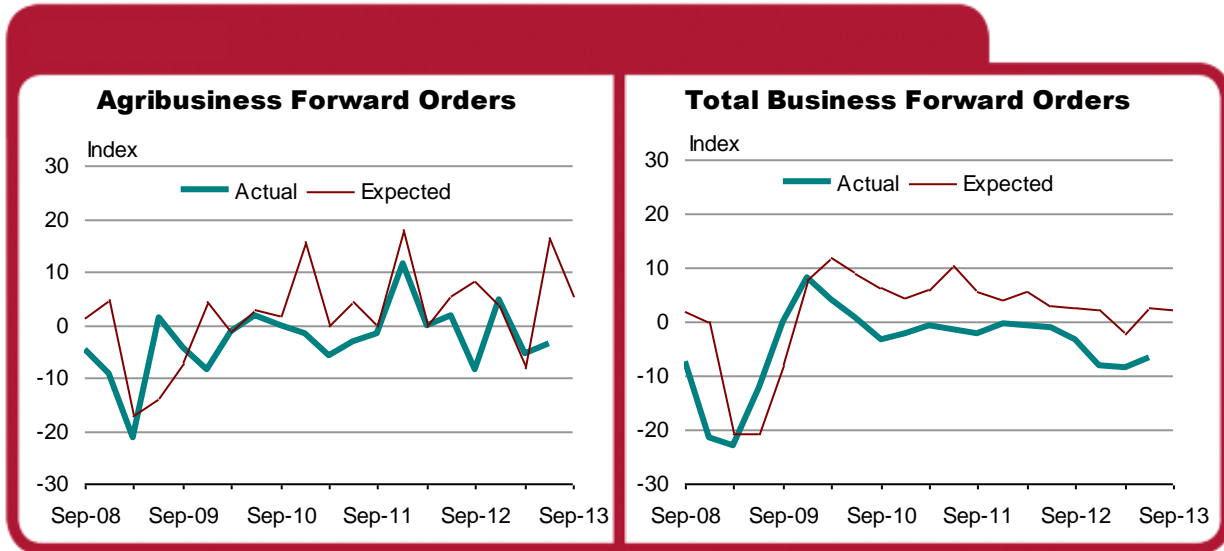


Source: NAB Group Economics, RBA



Forward orders improved in the June quarter

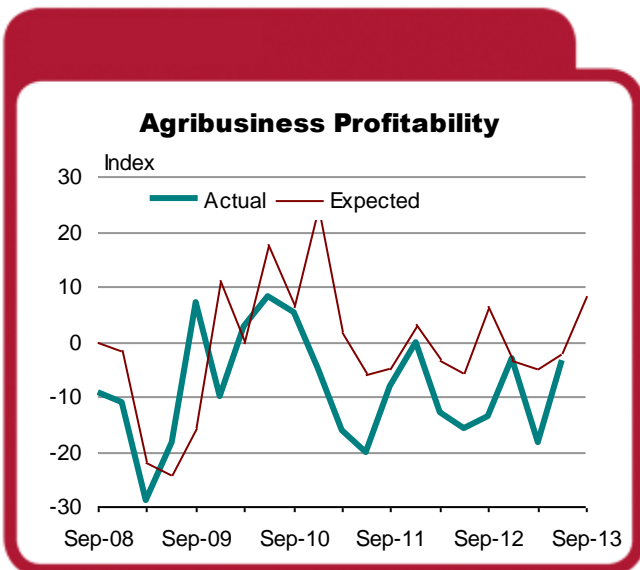
In line with better export performance, forward orders from the customers of agribusinesses picked up in the quarter, albeit falling short of expectations, with the index rising by 2 points to -3 points. A tight seasonal supply during the winter months for some of the major commodities such as wool and livestock, supported by more competitive pricing of these products have prompted some downstream and export customers to lock in orders as production catches up. According to the survey results, a smaller share of 21% of respondents reported lower forward orders compared to last quarter's 30%. Survey respondents were seemingly more upbeat about the September quarter, with the expectations index at +5 points.



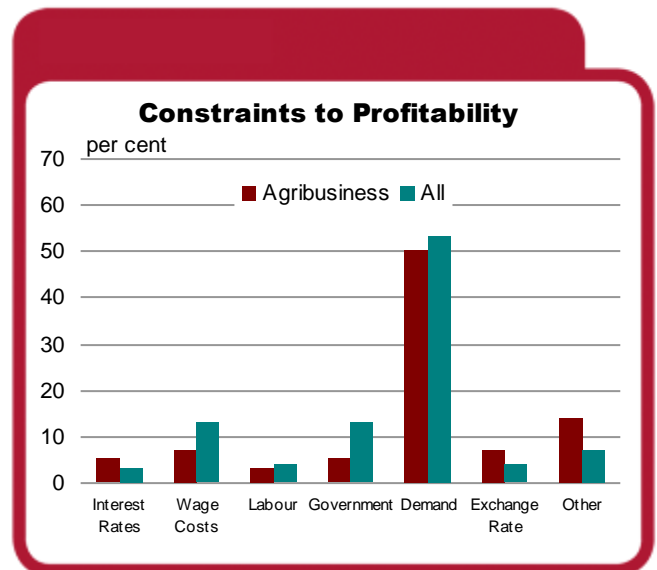
Source: NAB Group Economics

Profitability remained subdued, expectations for September quarter surged

The profitability index rose sharply in the June quarter but continued to be mired in negative territory at -3 points (up from -18), with the lack of demand persisting to be the most constraining factor on post-farmgate businesses' profitability. Surveyed firms were relatively less concerned about wage costs, government policies and other concerns. Consistent with historically low borrowing rates as well the welcomed moderation in the exchange rate, on average survey respondents no longer viewed these two indicators as significant constraints as they used to be. In the June quarter, 31% of respondents reported poor to very poor profitability while 27% reported good to very good profitability. For the quarter ahead, survey respondents were notably more optimistic, with the expectations index at +9 points.

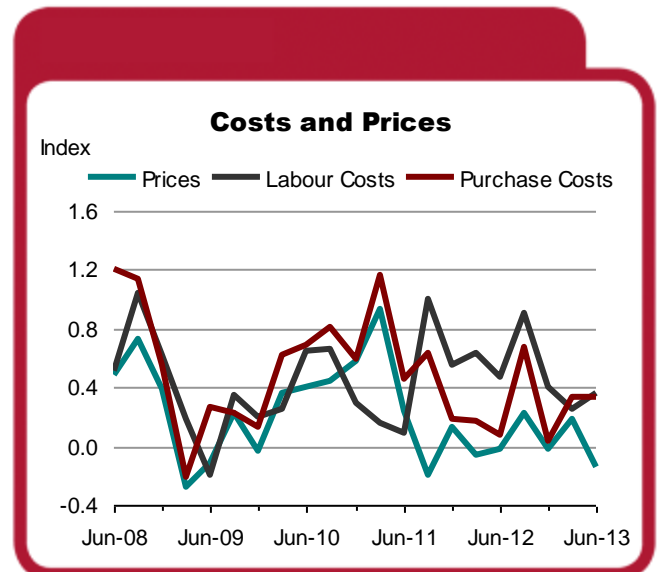
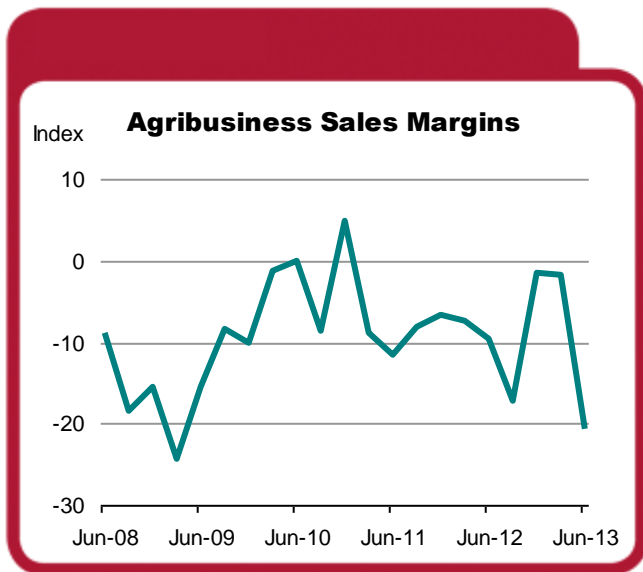


Source: NAB Group Economics



Sales margins conditions took a battering in the June quarter

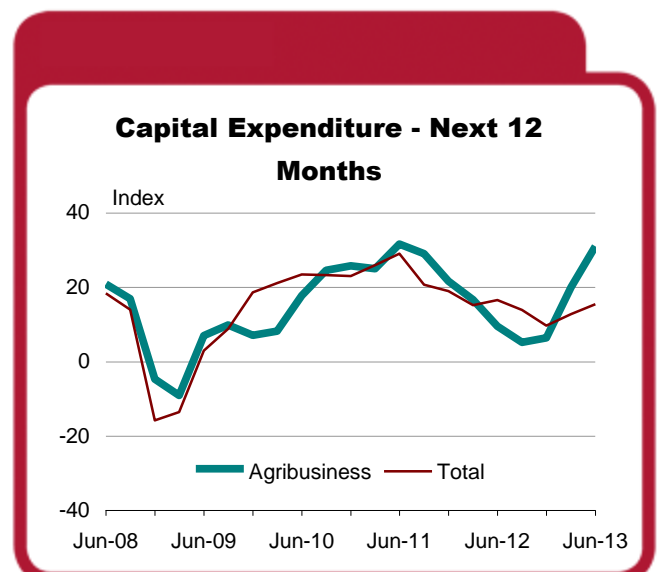
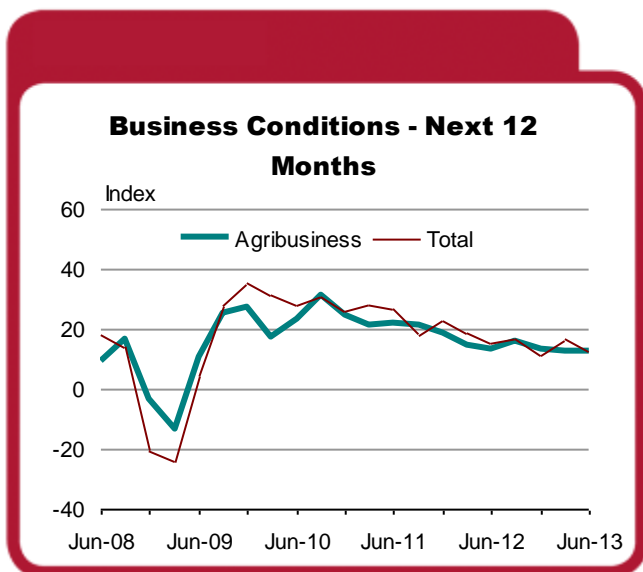
Sales margins conditions plummeted in the June quarter to record the lowest index in more than four years, with lower prices of products and higher labour costs significantly outweighing the marginal moderation in purchase costs. According to the survey results, only 12% of respondents reported an increase in sales margins compared to 34% reporting a fall. However, due to the more competitive pricing, trading volumes in the quarter have increased so the overall cash flow picture is looking healthier than what the sales margins index indicates.



Source: NAB Group Economics

Long-term expectations unchanged but capex plans jumped

Medium-term expectations for business conditions within the post-farmgate agribusiness sector were largely unchanged in the June quarter at +13 points, consistent with the index of total businesses. In contrast to the stable outlook for business conditions, the index for expected capital expenditure over the next twelve months maintained its momentum from the previous two quarters to surge to the highest level in two years at +31. A number of factors could have contributed to this: increasing export demand for chilled and frozen meats and dairy etc. has increasingly taken up spare capacity in processing facilities. A softer outlook for interest rates (NAB is forecasting another rate cut by the Reserve Bank in November) also served to buoy the confidence of businesses that they are likely to be able to borrow at lower costs for the purposes of facility upgrades.

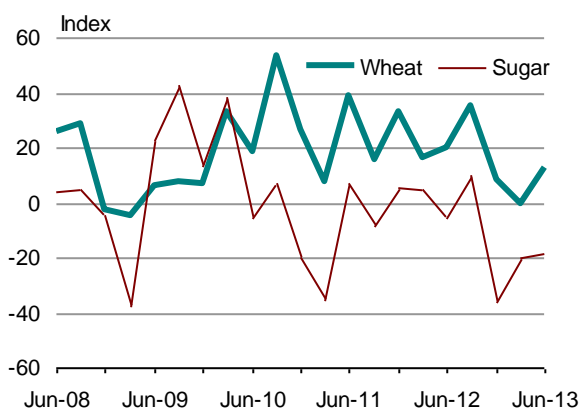


Source: NAB Group Economics

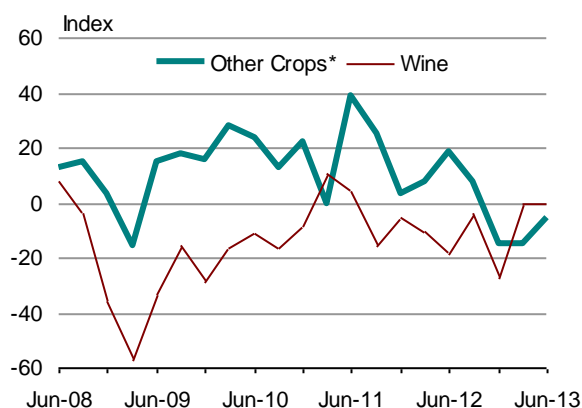
Agribusiness confidence in commodities and other supplies

Post-farmgate agribusiness confidence in crops has improved, on balance, over the June quarter. Of all crops, wheat was the strongest performer to have risen by 12.5 points from the neutral point of 0 last quarter, supported by strong domestic prices as a result of a tight inventory of old crops while new winter crops have only been just planted a few months back. The confidence index for sugar tracked sideways in the quarter at overwhelmingly pessimistic levels, possibly reflecting the stubbornly low levels of sugar prices, which have witnessed steady declines from December last year to June 2013. The wine confidence index remained unchanged at the neutral point but has improved from over the last two years as the wine glut slowly alleviates.

Agribusiness Confidence in Crops



Agribusiness Confidence in Crops

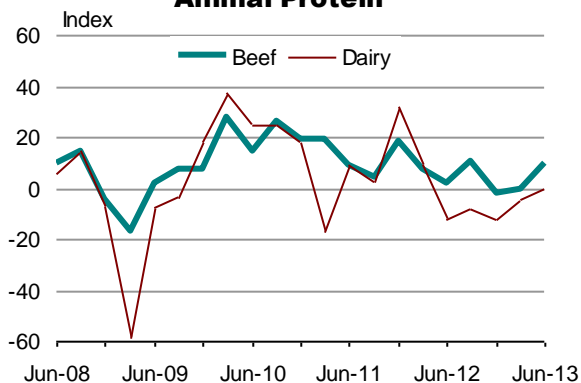


*Includes fruit, vegetables, fodder
Source: NAB Group Economics

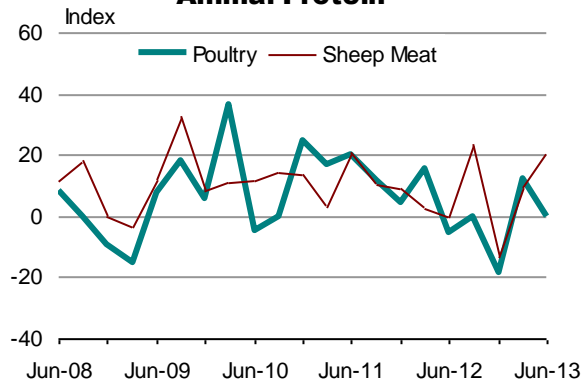
Post-farmgate agribusiness confidence in animal proteins was the standout in the June quarter, with sheepmeat recording the largest increase of 11 points to +21, followed closely by beef with an increase of 10 points to +10. Dairy also recorded an improvement to be at the neutral point of 0, while the confidence index for poultry was the only exception to have fallen by 12.5 points to the neutral level.

In the quarter, strong demand for Australian lamb and beef exports by China and the Middle East has undoubtedly helped to lift prices and sentiment, accentuated further by a seasonally tight demand for these products during winter months. Strong global prices for dairy commodities, which surged to a record high in April, would likely to have contributed to the uptick in processors' confidence level as well. Confidence in poultry has been weighed down by sustained high levels of feed costs which have been propped up by the tight supply of old grain crops at the moment while the supply of new crops has yet to come to fruition.

Agribusiness Confidence in Animal Protein



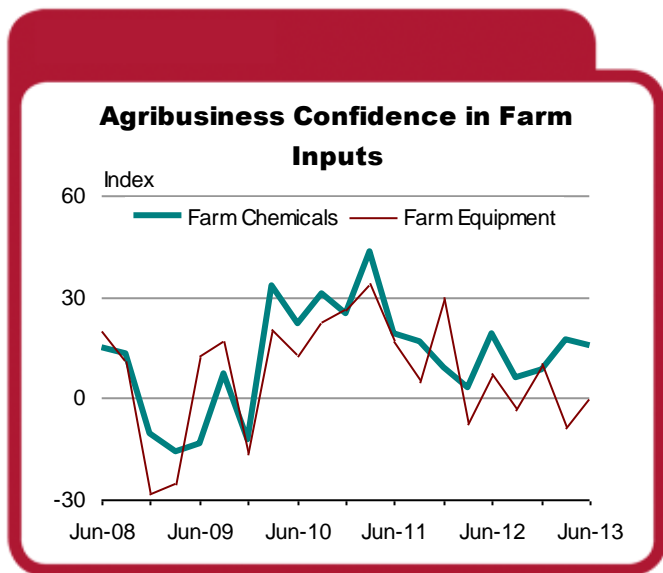
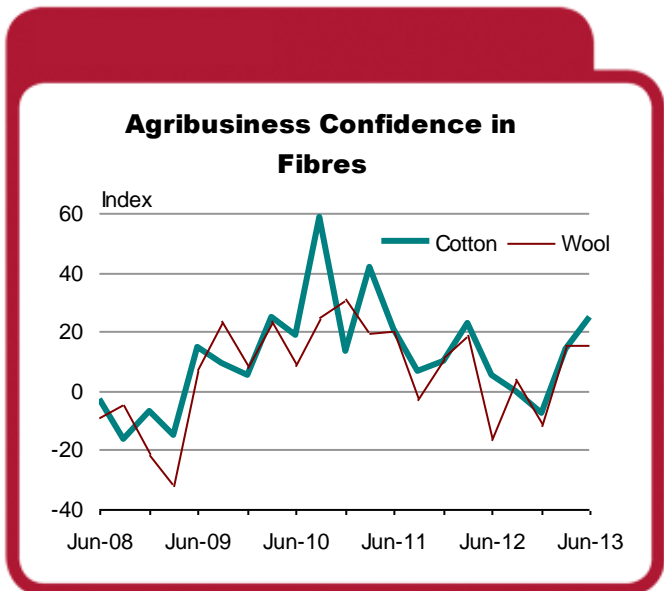
Agribusiness Confidence in Animal Protein



Source: NAB Group Economics

Confidence in fibres was broadly higher in the quarter, with indices for cotton and wool both entrenched firmly in positive territory. The index for cotton rose by 11 points to +25, likely to be attributable to the resilience in cotton prices from increased export demand from major global buyers and weaker new crop prospects in the US due to persistent drought conditions in the largest growing state of Texas. Meanwhile, the index for confidence in wool is largely unchanged at +15, with support likely to have stemmed from the significant devaluation of the AUD in the quarter, despite recent lacklustre price performance.

Agribusiness confidence in farm input was mixed in the quarter, with the fall in confidence for farm equipment partly offset by a rise in confidence in chemicals. The sustained low prices for fertilisers due to excess global supply has translated into manageable input costs for farm chemicals, propping confidence in farm chemicals above the neutral point since March quarter 2010. Confidence in farm equipment has been fluctuating around the neutral mark for the last year, suggesting that the earlier perceived affordability advantage from a high exchange rate has waned somewhat from a prolonged period of AUD strength.



Source: NAB Group Economics

For more information about this report please contact:

Vyanne Lai, NAB Agribusiness Economist.

Phone: 03 8634 0198

Email: Vyanne.Lai@NAB.com.au

Macroeconomic, Industry & Markets Research

Australia

Alan Oster	Group Chief Economist	+(61 3) 8634 2927
Jacqui Brand	Personal Assistant	+(61 3) 8634 2181

Rob Brooker	Head of Australian Economics & Commodities	+(61 3) 8634 1663
Alexandra Knight	Economist – Australia	+(61 3) 9208 8035
Vyanne Lai	Economist – Agribusiness	+(61 3) 8634 0198

Dean Pearson	Head of Industry Analysis	+(61 3) 8634 2331
Gerard Burg	Economist – Industry Analysis	+(61 3) 8634 2788
Robert De Lure	Economist – Property	+(61 3) 8634 4611
Brien McDonald	Economist – Industry Analysis & Risk Metrics	+(61 3) 8634 3837

Tom Taylor	Head of International Economics	+(61 3) 8634 1883
John Sharma	Economist – Country Risk	+(61 3) 8634 4514
James Glenn	Economist – International	+(61 3) 9208 5049
Tony Kelly	Economist – International	+(61 3) 9208 8129

Global Markets Research - Wholesale Banking

Peter Jolly	Head of Markets Research	+(61 2) 9237 1406
Robert Henderson	Chief Economist Markets - Australia	+(61 2) 9237 1836
Spiros Papadopoulos	Senior Economist – Markets	+(61 3) 8641 0978
David de Garis	Senior Economist – Markets	+(61 3) 8641 3045

New Zealand

Tony Alexander	Chief Economist – BNZ	+(64 4) 474 6744
Stephen Toplis	Head of Market Economics - BNZ	+(64 4) 474 6905
Craig Ebert	Market Economist - BNZ	+(64 4) 474 6799
Doug Steel	Market Economist – BNZ	+(64 4) 474 6799

London

Tom Vosa	Head of Market Economics - Europe	+(44 20) 7710 1573
----------	-----------------------------------	--------------------

	Foreign Exchange	Fixed Interest/Derivatives
Sydney	+800 9295 1100	+(61 2) 9295 1166
Melbourne	+800 842 3301	+(61 3) 9277 3321
Wellington	+800 64 642 222	+800 64 644 464
London	+800 747 4615	+(44 20) 7796 4761
New York	+1 800 125 602	+1877 377 5480
Singapore	+(65) 338 0019	+(65) 338 1789

About the Agribusiness Survey:

The agribusiness survey is a cohort of the NAB Quarterly Business Survey which surveys approximately 900 small/medium to large sized Australian companies. The agribusiness sample is approximately 100 small/medium to large sized companies, mainly in the food manufacturing industry but also wholesaling, services, and a small number of firms in other sectors. Gundabuey Research Pty Ltd mainly conducts the survey over a two-week period in the final month of each quarter. To ensure the highest possible accuracy, respondents to the survey are chosen at random from those firms with 40 or more employees.

Definitions

Business confidence is a measure of respondent's expectations of business conditions in their industry for the upcoming quarter. Business conditions are a simple average of trading, profitability and employment indices, reported by respondents for their company. The trading, profitability and other indices are calculated by taking the difference between the percentage of respondents nominating good or very good, or a rise and those nominating poor or very poor, or a fall. For example, if 25 per cent of respondents state that trading levels are good or very good and 10 per cent state these levels to be poor or very poor, the corresponding index of trading performance would be 15. The Capacity Utilisation Rate measures the degree to which an industry is operating at or below full capacity level. The full capacity rate is defined as the maximum desirable level of output given existing capital equipment. The Capacity Utilisation Rate is calculated as the average of respondents' capacity utilisation for the quarter. The cost and price change indices are the average of respondent's estimates of past and expected cost and price movements.

ANALYST CERTIFICATION: The person or persons named as the authors) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Wholesale Banking division of National Australia Bank Limited, a member of the National Australia Bank Group (the "National"). The views of the author's) do not necessarily reflect the views of the National and are subject to change without notice. The National may receive fees for banking services provided to an issuer of securities mentioned in this report. The National, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of the National), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. The National or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

UK DISCLAIMER: So far as the law and the FSA Rules allow, National Australia Bank Limited ("the Bank") disclaims any warranty or representation as to the accuracy or reliability of the information and statements in this document. The Bank will not be liable (whether in negligence or otherwise) for any loss or damage suffered from relying on this document. This document does not purport to contain all relevant information. Recipients should not rely on its contents but should make their own assessment and seek professional advice relevant to their circumstances. The Bank may have proprietary positions in the products described in this document. This document is for information purposes only, is not intended as an offer or solicitation nor is it the intention of the Bank to create legal relations on the basis of the information contained in it. No part of this document may be reproduced without the prior permission of the Bank. This document is intended for Investment Professionals (as such term is defined in The Financial Services and Markets Act 2000 (Financial Promotion) Order 2001) and should not be passed to any other person who would be defined as a private customer by the rules of the Financial Services Authority ("FSA") in the UK or to any person who may not have experience of such matters. Issued by National Australia Bank Limited A.C.N. 004 044 937, 88 Wood Street, London EC2V 7QQ. Registered in England BR1924. Head Office: 500 Bourke Street, Melbourne, Victoria. Incorporated with limited liability in the state of Victoria, Australia. Regulated by the FSA in the UK.

U.S DISCLAIMER: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.